

**Chairman Alfonse M. D'Amato**  
**Statement on Treasury Department Regulations for Implementation of 'EFT'99'**  
**New York City Hearing**  
**October 20, 1997**

Good morning. Thank you, Undersecretary Hawke, for inviting me to comment today on the Department of Treasury's proposed regulations for EFT'99 - the electronic payment of federal benefits. First, I must commend Treasury for holding this hearing in New York City to give the public the opportunity to comment on regulations that will affect millions of New Yorkers. Second, I am pleased that, in designing these regulations, Treasury has tried to provide flexibility so that this new program can be implemented in a way that shows respect and concern for those who receive federal benefits. Federal agencies expect to save \$100 million a year through EFT, but it would be absolutely disgraceful for our government to realize those savings at the expense of senior citizens, veterans, the poor, and the disabled.

I am particularly concerned about the impact of EFT'99 on the ten million 'unbanked' benefit recipients -- those who currently receive a federal payment each month but do not have bank accounts in which to receive a direct deposit. EFT'99 must be implemented in a way that is fair and sensitive to these citizens, who in many cases are elderly, less-educated, or disabled. Many of these people have encountered significant barriers to dealing with banks in the past, managing an account, or even traveling to the bank to access their money. For many reasons, they are often simply not comfortable dealing with banks and bank accounts. Instead, they may depend on other, personal arrangements for cashing their monthly checks. Although Treasury has proposed that electronic payment could be waived for many of these individuals, there are many questions remaining that I want to address this morning.

First is the question of whether the proposed waivers -- for geographical, physical, or financial hardship -- will be adequate. Treasury believes it is not necessary to provide additional waivers for individuals with mental disability or literacy or language problems. Forcing these individuals to sign up for an electronic account and go to an ATM for all of their banking may be inappropriate. Treasury also intends to restrict the financial hardship waiver to those who do not currently have bank accounts. Given the shocking rate at which banks have been raising their fees and charges, I expect that many lower-income people who currently have accounts are finding them increasingly hard to afford. What will happen if they seek a waiver from Treasury? The waiver system must be sufficiently flexible to ensure that EFT'99 does not create hardship, and so I look forward to hearing the views of the many groups that are represented here today.

The success of EFT'99 will also depend critically on the basic banking account that is described under Treasury's final regulations. Treasury is soliciting ideas and proposals from financial institutions for the special accounts that will be made available to people who receive federal benefits but do not have their own bank accounts. The law requires this account to provide core services, with full consumer protection, at a reasonable cost.

But what will the terms of this account be? Will the account holder have access to the tellers in the bank? Will he or she pay a fee to withdraw money from an ATM? Will he or she be able to pay rent and utilities electronically? Will this account be available to all consumers, or just to those who receive federal benefits? And will there be a monthly fee, and if so, how much? Until these key factors are known, people have every reason to be apprehensive about being forced into an account relationship with a bank.

Under the regulations that Treasury has put forward, the fees for this account will *not* be set by the Government. Treasury has proposed to listen to the banking industry's suggestions as it designs the features of the account. It would be wrong for Treasury to set prices for these accounts. But it would be irresponsible for Treasury to require seniors and others to sign up for these accounts and then allow banks absolute freedom to extract huge fees for the most basic services.

The response by the banks to Treasury's invitation to design innovative and inexpensive accounts is disturbing. I am appalled that, as of today, *no bank* has accepted Treasury's invitation to help design affordable, consumer-friendly accounts. There are 10 million Americans who receive federal benefits, but who do not have bank accounts. That is one-sixth of the total number of benefit recipients. Treasury is opening up a substantial market of millions of people who could be new bank customers, both for basic accounts and for other bank services. But the banking industry has been unwilling to design an affordable package of services that would meet the needs of these individuals. Instead the banks have thrown up barriers of sky-high fees and charges for even the most basic services. They have told these individuals to take their business elsewhere. The banks are deliberately disenfranchising millions of potential customers, and they are jeopardizing the success of EFT'99.

Banks are generally criticized for not providing affordable basic services, both in the inner cities and in rural areas. Their indifference was bad enough in the era of paper checks and passbooks. But in an era of direct deposit and ATMs, when technology is revolutionizing banking, driving down costs and providing opportunities for innovative new services, there is simply no excuse for banks to fail to serve these citizens. Banking technology should make it easier, not harder, for banks to draw new customers. Technology allows banks to slash their costs, limit their risks, and boost

profits to all-time record levels, year after year. We hear every day about the wonders that new banking technology is bringing to consumers -- ATMs, telephone banking, millions of debit and credit cards. But in fact, while banks reap ever greater profits from new technology, they do not always share the benefits with the consumer.

The ATM is a perfect example. It was designed as a cost-saving technology to provide convenient service to bank customers. But with the spread of surcharging, the ATM is becoming simply a mechanism for extracting fee income from bank customers. The customers who used to benefit from the convenience of ATMs have to either pay ridiculous double charges or else go searching for machines that don't charge those preposterous fees. What happened to convenience and customer service?

We are seeing the same trend with debit and credit cards. Consumers were introduced to credit cards for convenience. Now the banks are charging annual fees to hold the card, interest charges of fifteen or twenty percent if the consumer actually uses the card, and sometimes a separate fee if the consumer doesn't use the card enough. One bank is even charging a twenty-five dollar fee to cancel the card!

Debit cards are going the same way. Debit cards could provide a secure, efficient, and inexpensive way for consumers to make purchases. The cost per transaction could be just five or ten cents. But instead banks promote non-secure debit cards that bring high risks to consumers and high fees for merchants. Why? Because they would rather grab extra profits than use the new technology to serve their customers and cut their prices.

EFT'99 is an opportunity for the banks to improve on this record. Electronic payment

of benefits is a technological change that promises advantages for the banks, for the government, and for the recipients. It is more secure, it cuts down on fraud, it gets money to people faster, and it saves the time and expense of tracking down missing checks. It will save the government money. And it could bring millions of new customers into the banks.

That is why EFT'99 is a challenge to the banking industry. Banks need to study new technologies and to innovate, so as to bring the benefits of reasonably-priced services and full consumer protection to every consumer who wants them. If the banking industry can work with government to determine what basic services can and should be provided, and how technology can bring down the cost of providing those services, it can bring in ten million new customers and help to make EFT'99 work.

To be successful, EFT'99 will also require consumer education. The state and federal agencies which stand to benefit from EFT must recognize their responsibilities to educate seniors, the disabled, veterans, and others about the switch from paper checks to direct deposit. The switch will be confusing for many people. Those who have never had bank accounts can discover the advantages of a banking relationship, but they will first need to learn how to deal with a bank, access their money, and manage the account. They will need to understand the consumer protections that they will have under law. Financial literacy, which is already a sorely needed skill for many Americans, is going to be even more important as the 'unbanked' are brought into the banking system.

I believe that EFT'99 can work, and that it can benefit millions of Americans by bringing them into the banking system. But the potential for failure is considerable. We must never forget that millions of our fellow citizens depend on the timely receipt of their rightfully earned government benefits, so that they can pay their rent and

utilities and put food on the table. The Treasury and the Congress must be extra vigilant in implementing EFT'99. Protecting the rights of those who receive benefits should be our paramount purpose.

I will continue to insist that EFT be made available to our citizens at a 'reasonable cost.' I will not tolerate the outrageous and excessive fees that banks are imposing for ATMs, debit cards, and other basic services. Treasury should not impose price controls, but it should not permit abusive and excessive charges to be forced onto our most vulnerable citizens.

Again, I thank the Treasury for holding this public hearing in New York City, and for inviting me to participate, along with Shirley Genn, Beth Finkel, and representatives of the New York State Banking Department. All of us need to work together, Undersecretary Hawke, to make EFT work for all of our citizens.